

Senate Bill 2 Implementation

TML Budget and Tax Rate Workshop

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How Did We Get Here?



Major Components of S.B. 2

- Lowers the tax rate a city can adopt without voter approval and requires mandatory election to go above the lowered rate
- Enhanced transparency and “Truth-in-Taxation” modifications
- Appraisal reforms

New Terminology

Effective Tax
Rate



No-New-
Revenue Tax
Rate

Rollback Tax
Rate



Voter-
Approval Tax
Rate

In a Nutshell...

Pre S.B. 2

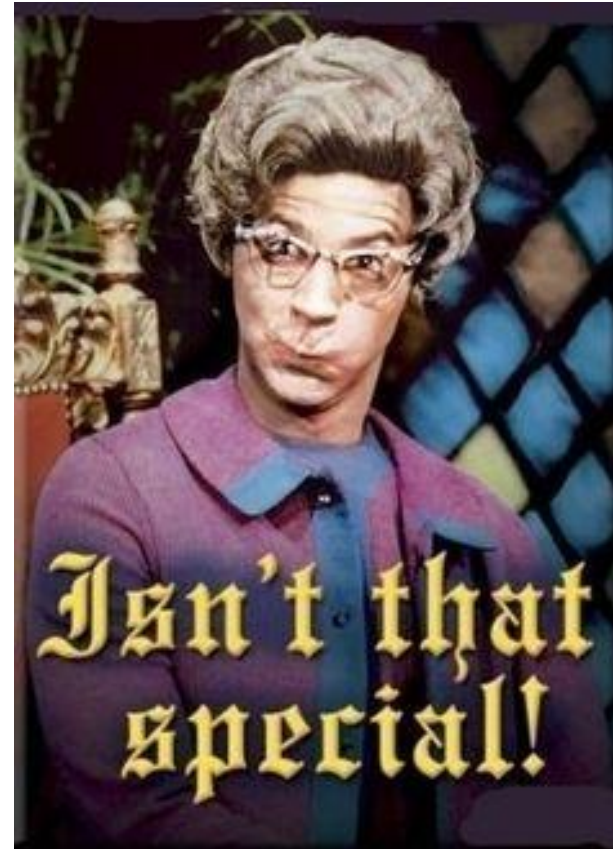
- If city adopted a tax rate exceeding the rollback rate (8 percent M&O growth), voters could petition for a rollback election.
- Rollback election not held on uniform election date.

Post S.B. 2

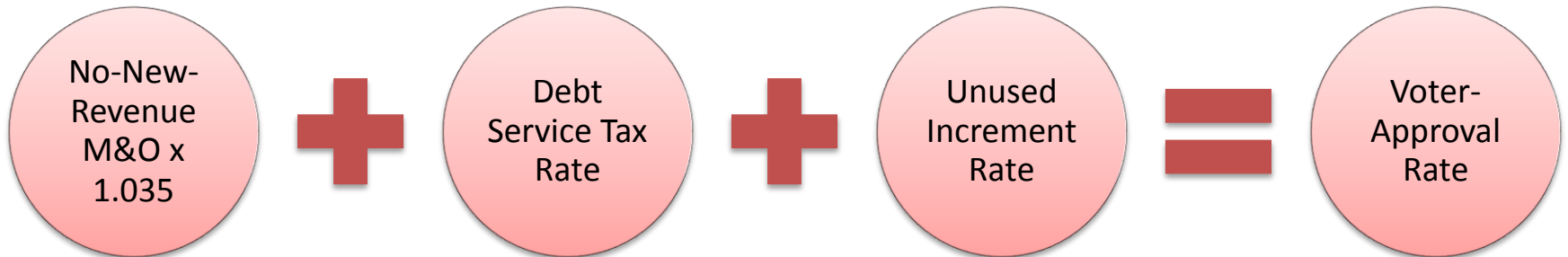
- If city adopts a tax rate exceeding the voter-approval rate (3.5 percent M&O growth, plus “unused increment rate”), city must hold an automatic election.
- Tax rate approval election held on November uniform election date.

Special Taxing Units

- Hospital Districts
- Junior College Districts
- Any taxing unit, other than a school, with a tax rate less than 2.5 cents per \$100
- Special taxing unit keeps an 8 percent voter-approval rate



Voter-Approval Rate Calculation (non-special taxing units)



Unused Increment Rate

- A new component in the voter-approval rate formula
- The 3-year rolling sum of the difference between the adopted tax rate and the voter-approval tax rate
- The city can “bank” unused amounts for up to three years

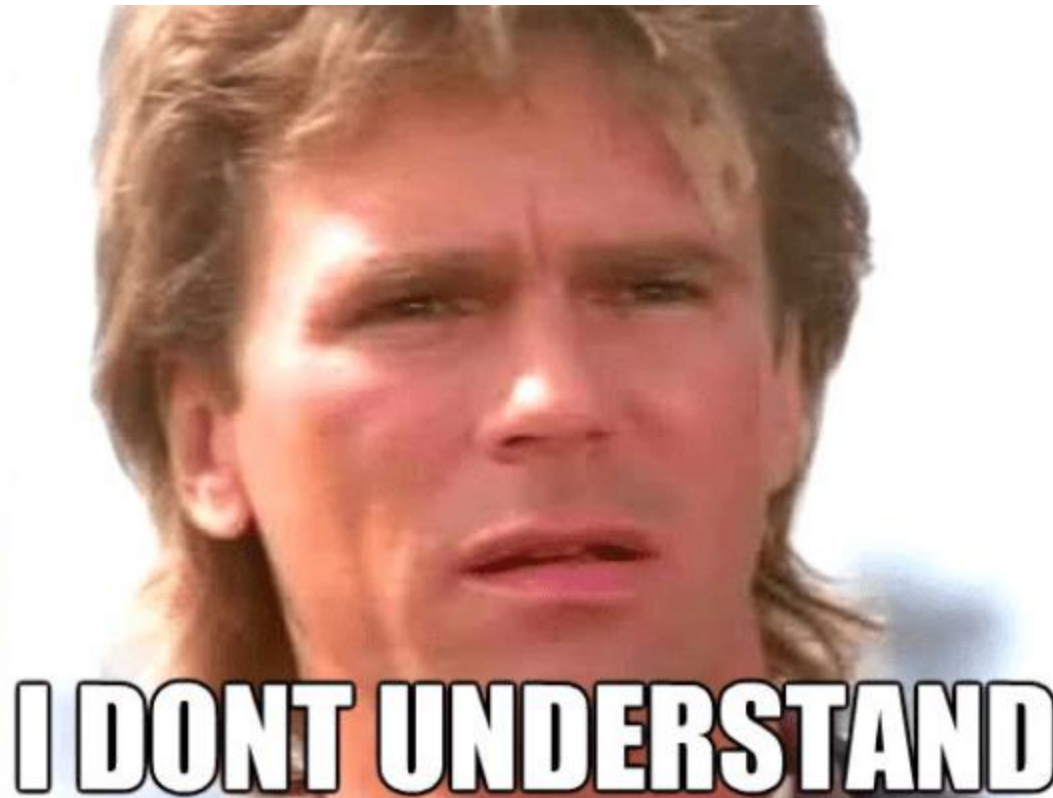


Unused Increment Example

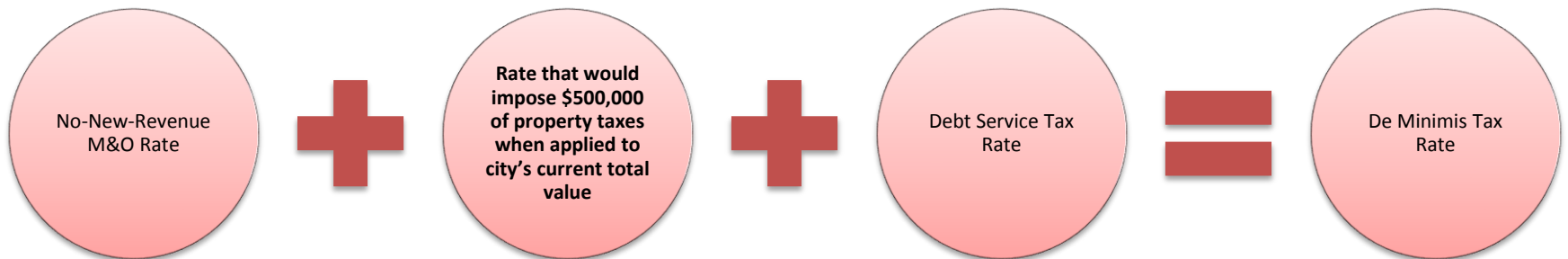
Year	Voter-Approval Rate	Adopted Rate	Difference
2020	.50000	.50000	0
2021	.50250	.50000	.00250
2022	.51000	.50000	.01000

In 2023, the city would have an unused increment rate of .01250, which would be factored into the voter-approval tax rate formula

De Minimis Rate



De Minimis Rate, defined



Application of De Minimis Rate

- Cities over 30,000 population don't calculate de minimis rate; don't receive flexibility it provides.
- For cities under 30,000 population, if the de minimis rate exceeds the voter-approval rate, automatic election is triggered only if city's adopted rate exceeds the de minimis rate.

Unexpected Results

	Total Taxable Value	No-New-Revenue M&O Tax Rate	Rate necessary to generate \$500,000	Debt Service Tax Rate	De minimis Rate	Voter-Approval Rate (Assuming Unused Increment Rate of zero)
Small City	\$35,000,000	.3456	1.4285	0	1.7741	.3577

Under this scenario, a small city could increase its tax rate by 313 percent over the no-new-revenue rate without holding an automatic election.

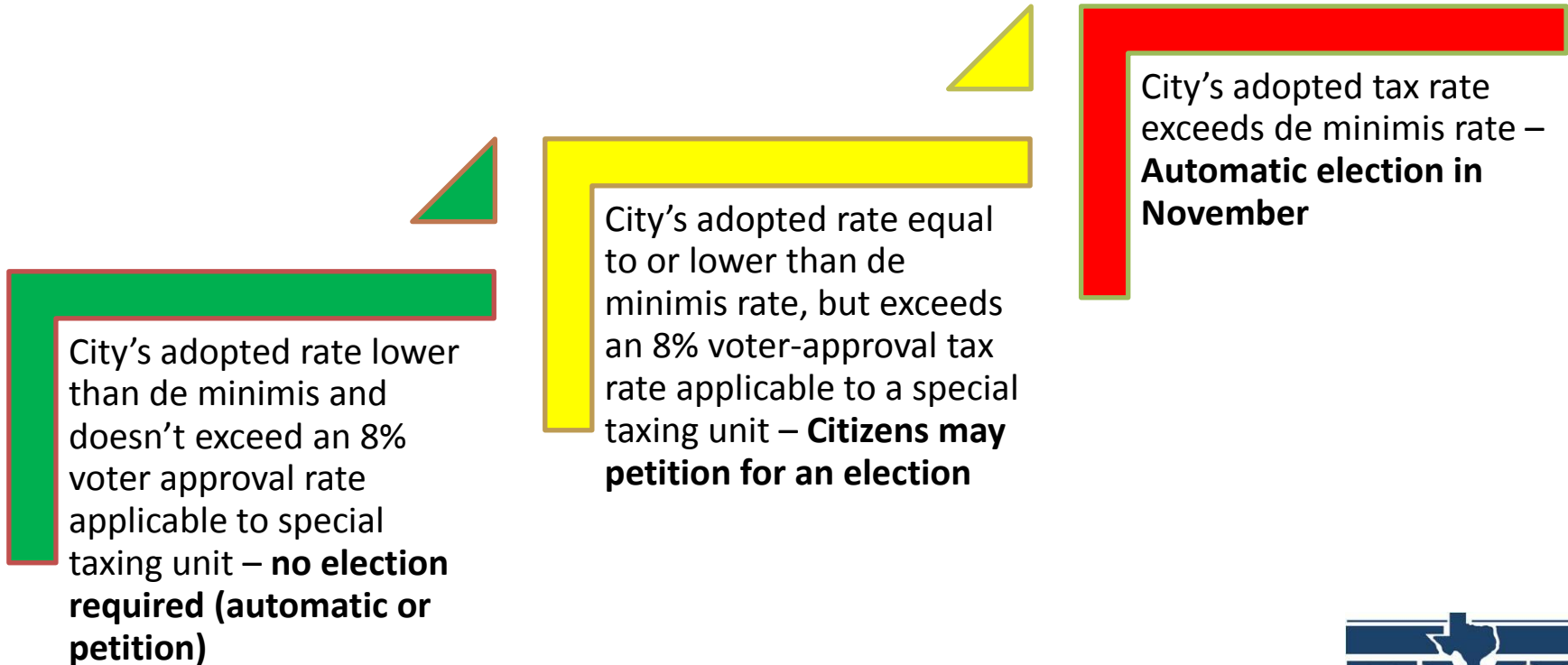


Legislative Reaction

- If a city's adopted tax rate is equal to or lower than the de minimis rate, but higher than an 8 percent voter-approval rate (calculated as if city were special taxing unit), the voters can petition for an election.

De Minimis Rate, Illustrated

The following assumes the de minimis rate exceeds the 3.5 percent voter-approval rate:



A Tale of Two Cities

- Big City and Small City share boundaries
- Big City has a population of 30,001
- Small City has a population of 29,999
- Each city has the same property value and growth rate with no new improvements
- Each city has no debt
- The governing body of each city has historically adopted a tax rate of \$0.60/\$100 every year

A Tale of Two Cities

	Both Cities Tax Year 2019	Big City Tax Year 2020	Small City Tax Year 2020
PY Adjusted Taxable Value	\$750,000,000	\$775,000,000	\$775,000,000
PY Adjusted Taxes at \$0.60/\$100	\$4,500,000	\$4,650,000	\$4,650,000
CY Total Taxable Value	\$775,000,000	\$800,000,000	\$800,000,000
CY No-New-Revenue Rate	\$0.5806	\$0.5812	\$0.5812
CY No-New-Revenue M&O Rate	\$0.5806	\$0.5812	\$0.5812
CY Voter-Approval Rate at 3.5%		\$0.6015	\$0.6015
Tax Rate That Will Raise \$500,000	N/A	N/A	\$0.0625
De Minimis Rate	N/A	N/A	\$0.6437

A Tale of Two Cities

Election Requirements	Big City Tax Year 2020	Small City Tax Year 2020
No-New-Revenue Rate	\$0.5812	\$0.5812
Voter-Approval Rate at 3.5%	\$0.6015	\$0.6015
Voter-Approval Rate at 8.0%	N/A	\$0.6277
De Minimis Rate	N/A	\$0.6437
If Adopted Tax Rate is	\leq \$0.6015	\leq \$0.6277
Election Requirement	None	None
If Adopted Tax Rate is	$>$ \$0.6015	\$0.6277 to \$0.6437
Election Requirement	Mandatory	Petition
If Adopted Tax Rate is		$>$ \$0.6437
Election Requirement		Mandatory

Disaster Flexibility

- City may calculate the voter-approval tax rate in the manner provided for a special taxing unit (8 percent) in disaster area for up to 3 years after tax year in which disaster occurred.
- No tax election when city adopts a tax rate for the year following the year in which a disaster occurs.



What About COVID-19?

- March 13 – Governor issues proclamation declaring a disaster statewide. President declares national emergency.
- Disaster defined in Government Code Sec. 418.004 as “the occurrence or imminent threat of widespread or severe damage, injury, or loss of life or property resulting from any natural or man-made cause, including fire, flood, earthquake, wind, storm, wave action, oil spill or other water contamination, volcanic activity, epidemic, air contamination, blight, drought, infestation, explosion, riot, hostile military or paramilitary action, extreme heat, cybersecurity event, other public calamity requiring emergency action, or energy emergency.
- City may opt into S.B. 2 disaster exemption by directing designated officer or employee to calculate 8 percent voter-approval rate.

Timeline

July 25th

- Chief Appraiser must submit certified appraisal roll or a certified estimate of property values

Mid-August

- **Any** city adopting a rate exceeding the voter-approval tax rate must do so by at least the 71th day before election day (8/24/20).
- If the tax rate adoption will trigger an automatic election, tax rate should be adopted by the 78th day before election day (8/17/20), since election needs to be ordered by that date.

September 29th

- Last day to adopt tax rate that is equal to or less than the voter approval tax rate

November 3rd

- The November uniform election date is the first Tuesday following the first Monday in November
- Automatic tax rate elections held on this day

Compressed Schedule

- Concessions made to expedite tax rate adoption process include:
 - Only one required tax rate hearing if city proposes a rate exceeding the no-new-revenue rate
 - Tax rate hearing can be held as early as the fifth day after the date notice is given (Can't be held until fifth day after chief appraiser delivers mandatory notice – must do so by August 7th)
 - Tax rate can be adopted at the public hearing on the tax rate

Transparency Changes

- 2015-2019 rate calculation worksheets sent to assessor-collector by 9/25/19
- Comptroller to create new calculation worksheets; must be attached as appendix to the budget (beginning 2021)
- Simplified notice in LGC Sec. 140.010 repealed
- Website notice by August 7th, then new notice given in advance of tax rate hearing or meeting to adopt tax rate



Property Tax Database

- Chief appraiser must create and maintain a property tax database that contains tax information from all taxing units, is accessible to the public, and searchable by property address and owner
- City's designated officer or employee required to submit rate information and details on hearing and meeting to adopt as information becomes available

Website Posting Requirements

- City Council members
- Contact info for city and councilmembers
- Budget for previous two years
- Proposed or adopted budget for current year
- Change in budget from last year to this year
- M&O property tax revenue and rate for current year and previous two years
- Debt service rate for current year and previous two years
- Most recent financial audit



First Responder Expenditures

S.B. No. 2

SECTION 119. (a) In this section:

(1) "Compensation" includes a salary, wage, insurance benefit, retirement benefit, or similar benefit an employee receives as a condition of employment.

(2) "First responder" has the meaning assigned by Section 504.019, Labor Code.

(3) "Taxing unit" has the meaning assigned by Section 1.04, Tax Code.

(b) This section applies only to the fiscal year of a taxing unit that begins in 2020.

(c) The governing body of a taxing unit may not adopt a budget for a fiscal year or take any other action that has the effect of decreasing the total compensation to which a first responder employed by the taxing unit was entitled in the preceding fiscal year of the taxing unit.



The Future of Municipal Finance

